

Legislative Audit Division

State of Montana



Report to the Legislature

September 2004

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2004

Montana School for the Deaf and the Blind

The report contains three recommendations related to:

- ▶ Accounting Controls
- ▶ Compliance Issue

Direct comments/inquiries to:
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Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2005, will be issued by March 31, 2006. The Single Audit Report for the two fiscal years ended June 30, 2003, was issued on March 23, 2004. Copies of the Single Audit Report can be obtained by contacting:

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State Capitol
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Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

September 2004

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Montana School for the Deaf and the Blind for fiscal years 2002-03 and 2003-04. Included in this report are recommendations addressing accounting controls and a compliance issue.

The school's written response to the audit recommendations is included at the end of the audit report. We thank the superintendent and staff for their assistance and cooperation throughout the audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott A. Seacat", with a long, sweeping horizontal line extending to the right.

Scott A. Seacat
Legislative Auditor

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Legislative Audit Division

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2004

Montana School for the Deaf and the Blind

Members of the audit staff involved in this audit were Laurie Barrett,
Melissa Heinert, and Jim Manning.

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Appointed and Administrative Officials

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Sheila M. Stearns, Commissioner of Higher Education*

		Term <u>Expires</u>
Dr. Kirk Miller, Chairperson	Havre	2009
Diane Fladmo, Vice Chairperson	Glendive	2005
Storrs Bishop	Ennis	2010
Cal Gilbert	Great Falls	2011
John Fuller	Whitefish	2008
Patty Myers	Great Falls	2007
Randy Morris	Butte	2006
Erik Engellant, Student Representative	Great Falls	2004

*ex officio members

Montana School for the Deaf and the Blind

Steve Gettel, Superintendent

Bill Davis, Principal

Bill Sykes, Business Manager

For additional information regarding the school contact:

Steve Gettel, Superintendent
Montana School for the Deaf and the Blind
3911 Central Avenue
Great Falls MT 59405-1697
Office: (406) 771-6000

e-mail: sgettel@sdb.state.mt.us

Montana School for the Deaf and the Blind

This audit report is the result of our financial-compliance audit of the Montana School for the Deaf and the Blind (school) for the two fiscal years ended June 30, 2004. The previous report contained two recommendations to the school. The school implemented one recommendation and partially implemented one recommendation. This report contains three recommendations addressing accounting controls, program expenditures, and state compliance.

We issued an unqualified opinion on the financial schedules contained in the report. The reader may rely on the financial information presented in the financial schedules and the supporting data on the state's accounting system.

The listing below serves as a means of summarizing the recommendations contained in the report, the school's response thereto, and a reference to the supporting comments.

Recommendation #1

We recommend the school implement additional controls to help prevent accounting errors and to improve overall financial records..... 4

School Response: Concur. See page B-3

Recommendation #2

We recommend the school charge expenditures to the appropriate programs. 6

School Response: Concur. See page B-3

Recommendation #3

We recommend the school develop written procedures to ensure funds other than the General Fund are being charged appropriately and timely in compliance with state law. 8

School Response: Concur. See page B-3

Introduction

Introduction

We performed a financial-compliance audit of the Montana School for the Deaf and the Blind (school) for the two fiscal years ended June 30, 2004. The objectives of the audit were to:

1. Determine whether the school complied with applicable laws and regulations.
2. Make recommendations, if necessary, for improvement in the school's control structure.
3. Determine whether the school's financial schedules present fairly the results of operations for the two fiscal years ended June 30, 2004.
4. Determine the implementation status of prior audit recommendations.

This report contains three recommendations. We also noted areas of concern, which we deemed not to have a significant effect on the operations of the school. These concerns are not specifically included in this report, but have been discussed with school management. In accordance with section 5-13-307, MCA, we analyzed and disclosed the cost, if significant, of implementing the recommendations in this report.

Background

The school is an integral part of the Montana public education system providing a residential and day school for children and adolescents who are deaf or blind. The school provides an education for the hearing impaired and visually impaired children of this state that is commensurate with the education provided to nonhandicapped children in the public schools and that will enable children being served by the school to become independent and self-sustaining citizens.

At the end of fiscal year 2003-04 the school was providing services to the following constituents:

- ▶ Educational placements for 24 visually impaired and 50 deaf or hearing impaired students.

Introduction

- ▶ Interpreter Tutor services for 21 deaf students who take some or all of their classes in the mainstream setting.
- ▶ Residential living and health services for 38 students who attend the school.
- ▶ Audiological assessments for 154 children referred through the Outreach Program.
- ▶ Consultation services to local school districts and parents through the school's Outreach Program to 292 students in 92 school districts around the state.
- ▶ Home-based family training through the school's Family Advisor Program for 16 deaf or blind infants and toddlers around the state.
- ▶ Specialized educational materials to 196 blind students at the school and 78 school districts throughout Montana and distributing 1350 captioned videos to 300 deaf adults and teachers of deaf students at the school and across the northwest region.
- ▶ Summer skills camps for 28 deaf and 14 blind students from across the state.

Prior Audit Recommendations

The prior audit of the school for the two fiscal years ended June 30, 2002 contained two recommendations. The school implemented one recommendation and partially implemented one recommendation. The recommendation that was partially implemented concerned spending Non-General Fund money first, as required by state law. This issue is discussed again in this report, beginning on page 6.

Findings and Recommendations

Control Structure

The objectives of management control structures include identifying risks to achieving management's control objectives and determining how to manage them; applying policies and procedures to ensure management and accounting directives are carried out; informing and communicating methods used to record, process, summarize, and report an organization's transactions; and assessing the quality of the control structure over time. Establishing accountability requires management to develop and implement a control structure for its operations. This audit report addresses the need for the school to implement controls and procedures to help prevent accounting errors and improve financial reporting.

We noted instances where accounts were used incorrectly and inconsistently, entries on the accounting system were posted incorrectly, entries were input twice, expenditures were accrued that had already been paid, and expenditures were charged to incorrect programs. State law requires the school to input all necessary transactions before the end of the fiscal year to present the receipt, use, and disposition of all money and property, for which it is accountable, in accordance with generally accepted accounting principles. The following two report sections discuss instances of noncompliance we found during the audit, and areas where improved controls would prevent and detect the errors.

Accounting Errors

Accounting controls are not adequate to prevent or detect accounting errors.

- ▶ In fiscal year 2002-03 the school collected federal indirect cost recoveries. The revenue, which totaled \$7,671, was incorrectly recorded as Federal revenue and should have been Federal Indirect Cost Recoveries.
- ▶ In the Federal Special Revenue Fund the school receives federal Medicaid Reimbursements for the students. In fiscal year 2002-03, \$8,669 of the reimbursements were incorrectly coded as Charges for Services instead of Federal revenue.

Findings and Recommendations

- ▶ In both fiscal years 2002-03 and 2003-04, there were instances where expenditures were charged to improper accounts. For example we found milk purchases recorded as diesel.
- ▶ Expenditure accruals were made at fiscal year-end 2002-03 for supplies ordered but not received. One of the accruals was input twice. This caused expenditures and liabilities to be overstated by \$6,226 in 2002-03 in the General Fund. In fiscal year 2003-04 when the payment was made, the accruals were eliminated and the payment was recorded. Errors in these transactions caused prior year adjustments in 2003-04 to be understated by \$613.
- ▶ The school recorded an accrual for new tires and an oil change for a school van at fiscal year-end 2002-03. However, the \$396 service was completed and paid for at the beginning of June 2003. Since the amount was also accrued, expenditures are overstated by \$396 in fiscal year 2002-03.
- ▶ In fiscal year 2003-04 the school processed transactions without a fund type. When attempting to correct the error, they debited and credited the wrong accounts. This caused an understatement of expenditures and overstatement of liabilities in the General Fund of \$232.

For the items noted above, we observed in most cases, the original written vouchers were correct when they were reviewed and approved. When the vouchers were input into the accounting system mistakes were made.

School officials stated it is the school's procedure to review each written voucher and randomly sample journals recorded on the accounting system. The errors noted above were mostly mistakes incurred when inputting information into the accounting system. Personnel noted they are changing the procedure and will be reviewing all journals recorded on the accounting system.

Recommendation #1

We recommend the school implement additional controls to help prevent accounting errors and to improve overall financial records.

Findings and Recommendations

Program Expenditures

Expenditures are not recorded in the proper programs.

The school currently uses four programs to segregate its costs to operate. The Administration Program includes the costs of purchasing, accounting, personnel functions, and management of business affairs for the school. The General Services Program includes expenditures for the general upkeep and maintenance of the school. The Student Services program records expenditures for residential care for children living at the school. The Education Program includes expenditures for educating children with hearing and/or sight loss.

Each of these programs has an operating budget that is approved by the legislature. State law requires information used when submitting a budget be consistent and accurate. It should include detailed information for disbursements by fund and program. During our audit we found instances where expenditures were charged to incorrect programs. Most errors were related to a statutory appropriation for out-of-state tuition. We found snowblowers, oil, tires, chainsaws, and maintenance contracts charged to the Education Program instead of the General Services Program. The following is a summary of expenditures we reviewed in the Education Program that should have been recorded in other programs.

Figure 1

Expenditures in the Education Program that should be in the:

	Fiscal Year 2002-03	Fiscal Year 2003-04
Student Services Program	\$1,310	\$454
Administration Program	1,244	31
General Services Program	34,924	13,563
*All Other Programs	974	818

* All Other Programs – expenditures were charged to the Education Program but should be divided or allocated to other programs as well.

Source: Compiled by the Legislative Audit Division

Findings and Recommendations

There were also \$2,133 of expenditures we reviewed in fiscal year 2003-04 that were charged to the Student Services Program, which should have been charged to the General Services Program. We noted some expenditures charged to the Administration Program which belonged in the Education Program.

School personnel stated that they spend the money where it was appropriated. They stated that their mission is for education and everything they do is related to education of the children and therefore an allowable expense in the Education Program for the statutory appropriation. Expenditures should be charged to the appropriate programs. The school should get budget transfers to allow the school to properly record the cost, or budget using one program instead of four to eliminate these errors.

Recommendation #2

We recommend the school charge expenditures to the appropriate programs.

Compliance Issue

Non-General Fund Money

The school does not spend Non-General Fund money first, resulting in unrecorded, unauthorized loans from the General Fund.

Section 17-2-108, MCA, states that offices or entities of state government shall apply expenditures against Non-General Fund money whenever possible before using general fund appropriations. The school initially charges most expenditures to the General Fund and, throughout the year, moves the expenditures to the State Special Revenue Fund or the Federal Special Revenue Fund. We noted several instances where the school is not in compliance with this state law. This issue also relates to a prior audit recommendation.

- ▶ Expenditures in the State Special Revenue Fund are used to help fund the Education Program. At the end of both fiscal years 2002-03 and 2003-04 there was remaining budget authority and

Findings and Recommendations

fund balance in the State Special Revenue Fund. The school did not transfer all the eligible Education Program costs from the General Fund to the State Special Revenue Fund. In fiscal year 2003-04 the remaining budget authority in the State Special Revenue Fund was \$155,796 and the ending fund balance is \$120,919. Based on this, we believe the school should make adjustments to the accounting records. The school should move expenditures from the General Fund to the State Special Revenue Fund to ensure there is no cash balance at fiscal year-end 2003-04.

- ▶ The school gets reimbursement grants from the federal government for specific expenditures. The school records eligible expenditures in the General Fund and requests reimbursements from the federal government. Revenue received is recorded in the Federal Special Revenue Fund. Instead of moving the General Fund expenditures as soon as the revenues are recorded in the Federal Special Revenue Fund, we found instances the school did not move expenditures in a timely manner. Based on our review, some expenditures were moved approximately a week after revenues were received. In other instances it was almost a full year before they were moved. We estimated \$85,300 of expenditures were not moved timely.

In one specific instance in fiscal year 2002-03, the school received revenue from an outreach grant. However the school did not move the expenditures from the General Fund by fiscal year-end. Therefore, fiscal year 2002-03 General Fund expenditures are overstated by \$4,505.

Based on our audit, federal revenue requests and movement of expenditures from the General Fund to the State and Federal Special Revenue Funds are inconsistent. We found there were no specific procedures in place to determine when to request federal revenue, how much to request, or when to move expenditures. This causes the General Fund to supplement the costs of other programs and results in unrecorded, unauthorized loans from the General Fund.

The school has changed procedures for requesting federal money. Instead of requesting the federal cash once a year at the end of the year, they make draws throughout the year. They also attempt to move the expenditures in a timely manner, but it does not always happen.

Findings and Recommendations

Recommendation #3

We recommend the school develop written procedures to ensure funds other than the General Fund are being charged appropriately and timely in compliance with state law.

Independent Auditor's Report & School Financial Schedules

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

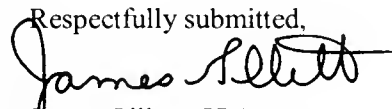
The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Montana School for the Deaf and the Blind for each of the fiscal years ended June 30, 2003, and 2004. The information contained in these financial schedules is the responsibility of the school's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the school's assets and liabilities.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances and property held in trust of the Montana School for the Deaf and the Blind for each of the fiscal years ended June 30, 2003, and 2004, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

James Gillett, CPA
Deputy Legislative Auditor

July 28, 2004

MONTANA SCHOOL FOR THE DEAF & THE BLIND
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

FUND BALANCE: July 1, 2003					
PROPERTY HELD IN TRUST: July 1, 2003					
ADDITIONS					
Budgeted Revenues & Transfers-In	16,380	335,488	161,525		
NonBudgeted Revenues & Transfers-In	284				
Direct Entries to Fund Balance	3,516,351	66,339			
Additions to Property Held in Trust					
Total Additions	<u>3,533,015</u>	<u>401,827</u>	<u>161,525</u>		<u>48,355</u>
REDUCTIONS					
Budgeted Expenditures & Transfers-Out	3,465,877	375,812	226,953		
NonBudgeted Expenditures & Transfers-Out		31,238			
Prior Year Expenditures & Transfers-Out Adjustments	(27,194)	(817)			
Reductions in Property Held in Trust					
Total Reductions	<u>3,438,683</u>	<u>406,233</u>	<u>226,953</u>		<u>48,623</u>
FUND BALANCE: June 30, 2004	\$ <u>(271,648)</u>	\$ <u>120,919</u>	\$ <u>(60,158)</u>		\$ <u>0</u>
PROPERTY HELD IN TRUST: June 30, 2004					\$ <u><u>10,922</u></u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

MONTANA SCHOOL FOR THE DEAF & THE BLIND
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Agency Fund
FUND BALANCE: July 1, 2002	\$ (299,466)	\$ 215,134	\$ 26,091	\$ 0
PROPERTY HELD IN TRUST: July 1, 2002				\$ 11,753
ADDITIONS				
Budgeted Revenues & Transfers-In	14,227	363,497	172,498	
NonBudgeted Revenues & Transfers-In	46	14,511		
Direct Entries to Fund Balance	3,246,536	101,449	(26,000)	
Additions to Property Held in Trust				45,393
Total Additions	<u>3,260,809</u>	<u>479,457</u>	<u>146,498</u>	<u>45,393</u>
REDUCTIONS				
Budgeted Expenditures & Transfers-Out	3,327,361	555,226	167,319	
NonBudgeted Expenditures & Transfers-Out		14,304		
Prior Year Expenditures & Transfers-Out Adjustments	(38)	(264)		
Reductions in Property Held in Trust				45,956
Total Reductions	<u>3,327,323</u>	<u>569,266</u>	<u>167,319</u>	<u>45,956</u>
FUND BALANCE: June 30, 2003	\$ (365,980)	\$ 125,325	\$ 5,270	\$ 0
PROPERTY HELD IN TRUST: June 30, 2003				\$ 11,190

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

MONTANA SCHOOL FOR THE DEAF & THE BLIND
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS				
Licenses and Permits				
Taxes	\$ 284	737		\$ 737
Charges for Services				284
Rentals, Leases and Royalties	9,164	1,725	22,238	33,127
Miscellaneous		3,335		3,335
Grants, Contracts, Donations and Abandonments	7,216			7,216
Other Financing Sources		30,642		30,642
Federal		299,049		299,049
Federal Indirect Cost Recoveries			130,225	130,225
Total Revenues & Transfers-In	16,664	335,488	9,062	9,062
Less: Nonbudgeted Revenues & Transfers-In	284		161,525	513,677
Actual Budgeted Revenues & Transfers-In	16,380	335,488	161,525	513,393
Estimated Revenues & Transfers-In	15,153	284,772	158,349	458,274
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 1,227	\$ 50,716	\$ 3,176	\$ 55,119
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS				
Charges for Services	\$ 1,737	\$ 325	\$ 2,238	\$ 4,300
Rentals, Leases and Royalties		(1,165)		(1,165)
Miscellaneous	(510)			(510)
Grants, Contracts, Donations and Abandonments		27,507		27,507
Other Financing Sources		24,049		24,049
Federal			(697)	(697)
Federal Indirect Cost Recoveries			1,635	1,635
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 1,227	\$ 50,716	\$ 3,176	\$ 55,119

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

MONTANA SCHOOL FOR THE DEAF & THE BLIND
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

TOTAL REVENUES & TRANSFERS-IN BY CLASS

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Total
Taxes	\$ 46	\$ 208		254
Charges for Services	7,515	57,562	\$ 8,669	73,746
Sale of Documents, Merchandise and Property	174			174
Rentals, Leases and Royalties		6,365		6,365
Miscellaneous	6,538			6,538
Grants, Contracts, Donations and Abandonments		14,304		14,304
Other Financing Sources		299,569		299,569
Federal			163,829	163,829
Total Revenues & Transfers-In	<u>14,273</u>	<u>378,008</u>	<u>172,498</u>	<u>564,779</u>
Less: Nonbudgeted Revenues & Transfers-In	46	14,511		14,557
Actual Budgeted Revenues & Transfers-In	<u>14,227</u>	<u>363,497</u>	<u>172,498</u>	<u>550,222</u>
Estimated Revenues & Transfers-In	11,700	339,844	169,240	520,784
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ 2,527</u>	<u>\$ 23,653</u>	<u>\$ 3,258</u>	<u>\$ 29,438</u>

BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS

Charges for Services	\$ 1,315	\$ 1,783	\$ 8,669	11,767
Sale of Documents, Merchandise and Property	(326)			(326)
Rentals, Leases and Royalties		2,300		2,300
Miscellaneous	1,538			1,538
Other Financing Sources		19,570		19,570
Federal			(5,411)	(5,411)
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ 2,527</u>	<u>\$ 23,653</u>	<u>\$ 3,258</u>	<u>\$ 29,438</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

MONTANA SCHOOL FOR THE DEAF & THE BLIND
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	ADMINISTRATION PROGRAM	EDUCATION	GENERAL SERVICES PROGRAM	STUDENT SERVICES	TOTAL
Personal Services					
Salaries	\$ 201,753	\$ 1,620,755	\$ 90,072	\$ 599,063	\$ 2,511,643
Employee Benefits	57,152	549,494	38,557	307,602	952,805
Total	<u>258,905</u>	<u>2,170,249</u>	<u>128,629</u>	<u>906,665</u>	<u>3,464,448</u>
Operating Expenses					
Other Services	24,243	14,184	49,781	6,912	95,120
Supplies & Materials	1,289	38,998	22,347	45,722	108,356
Communications	21,085	13,884	50	24	35,043
Travel	1,202	14,934		41,363	57,499
Rent		482		5,497	5,979
Utilities			142,321	57	142,378
Repair & Maintenance	462	16,797	41,118	1,097	59,474
Other Expenses	24,071	44,475	310	95	68,951
Total	<u>72,352</u>	<u>143,754</u>	<u>255,927</u>	<u>100,767</u>	<u>572,800</u>
Capital Outlay					
Buildings		34,621			34,621
Total		<u>34,621</u>			<u>34,621</u>
Total Expenditures & Transfers-Out	\$ 331,257	\$ 2,348,624	\$ 384,556	\$ 1,007,432	\$ 4,071,869
EXPENDITURES & TRANSFERS-OUT BY FUND					
General Fund					
State Special Revenue Fund	\$ 330,661	\$ 1,745,145	\$ 384,556	\$ 978,321	\$ 3,438,683
Federal Special Revenue Fund	596	405,637		29,111	406,233
Total Expenditures & Transfers-Out	<u>331,257</u>	<u>2,348,624</u>	<u>384,556</u>	<u>1,007,432</u>	<u>4,071,869</u>
Less: Nonbudgeted Expenditures & Transfers-Out	597	30,642		31,239	31,239
Prior Year Expenditures & Transfers-Out Adjustments		(29,914)	1,540	363	(28,011)
Actual Budgeted Expenditures & Transfers-Out	<u>330,660</u>	<u>2,347,896</u>	<u>383,016</u>	<u>1,007,069</u>	<u>4,068,641</u>
Budget Authority	345,525	2,570,209	387,450	1,008,062	4,311,246
Unspent Budget Authority	<u>14,865</u>	<u>\$ 222,313</u>	<u>4,434</u>	<u>993</u>	<u>\$ 242,605</u>
UNSPENT BUDGET AUTHORITY BY FUND					
General Fund	\$ 14,284		4,434	993	\$ 19,711
State Special Revenue Fund	581	155,796			156,377
Federal Special Revenue Fund		66,517			66,517
Unspent Budget Authority	<u>14,865</u>	<u>\$ 222,313</u>	<u>4,434</u>	<u>993</u>	<u>\$ 242,605</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

MONTANA SCHOOL FOR THE DEAF & THE BLIND
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	ADMINISTRATION PROGRAM	EDUCATION	GENERAL SERVICES PROGRAM	STUDENT SERVICES	TOTAL
Personal Services					
Salaries	\$ 199,615	\$ 1,583,767	\$ 89,996	\$ 667,775	\$ 2,541,153
Employee Benefits	52,474	498,541	37,500	291,822	880,337
Total	<u>252,089</u>	<u>2,082,308</u>	<u>127,496</u>	<u>959,597</u>	<u>3,421,490</u>
Operating Expenses					
Other Services	63,780	11,264	30,484	8,763	114,291
Supplies & Materials	3,555	91,361	18,279	42,092	155,287
Communications	34,746	18,606	6	721	54,079
Travel	943	14,634		37,971	53,548
Rent			70	7,189	7,259
Utilities			142,672		142,672
Repair & Maintenance	302	40,140	18,962		59,404
Other Expenses	20,094	27,944	30	80	48,148
Total	<u>123,420</u>	<u>203,949</u>	<u>210,503</u>	<u>96,816</u>	<u>634,688</u>
Equipment & Intangible Assets					
Equipment		7,730			7,730
Total		<u>7,730</u>			<u>7,730</u>
Total Expenditures & Transfers-Out	\$ <u>375,509</u>	\$ <u>2,293,987</u>	\$ <u>337,999</u>	\$ <u>1,056,413</u>	\$ <u>4,063,908</u>
EXPENDITURES & TRANSFERS-OUT BY FUND					
General Fund	\$ 375,509	\$ 1,612,004	\$ 337,999	\$ 1,001,811	\$ 3,327,323
State Special Revenue Fund		541,266		28,000	569,266
Federal Special Revenue Fund		140,717		26,602	167,319
Total Expenditures & Transfers-Out	<u>375,509</u>	<u>2,293,987</u>	<u>337,999</u>	<u>1,056,413</u>	<u>4,063,908</u>
Less: Nonbudgeted Expenditures & Transfers-Out		14,304			14,304
Prior Year Expenditures & Transfers-Out Adjustments		(302)			(302)
Actual Budgeted Expenditures & Transfers-Out	<u>375,509</u>	<u>2,279,985</u>	<u>337,999</u>	<u>1,056,413</u>	<u>4,049,906</u>
Budget Authority	<u>377,075</u>	<u>2,502,892</u>	<u>342,522</u>	<u>1,087,887</u>	<u>4,310,376</u>
Unspent Budget Authority	<u>1,566</u>	<u>222,907</u>	<u>4,523</u>	<u>31,474</u>	<u>260,470</u>
UNSPENT BUDGET AUTHORITY BY FUND					
General Fund	\$ 1,566	\$ 106,439	\$ 4,523	\$ 31,474	\$ 144,002
State Special Revenue Fund		111,963			111,963
Federal Special Revenue Fund		4,505			4,505
Unspent Budget Authority	<u>1,566</u>	<u>222,907</u>	<u>4,523</u>	<u>31,474</u>	<u>260,470</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

Montana School for the Deaf and the Blind

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2004

1. Summary of Significant Accounting Policies

Basis of Accounting

The Montana School for the Deaf and the Blind uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental Fund category. In applying the modified accrual basis, the school records:

Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.

Expenditures for valid obligations when the school incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the school to record the cost of employees' annual leave and sick leave when used or paid.

The school uses accrual basis accounting for its Fiduciary Fund category. Under the accrual basis, as defined by state accounting policy, the school records revenues in the accounting period earned when measurable and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the school received the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

Notes to the Financial Schedules

School accounts are organized in funds according to state law applicable at the time transactions were made. The school uses the following funds:

Governmental Funds

General Fund - to account for all financial resources except those required to be accounted for in another fund.

State Special Revenue Fund - to account for proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. School Special Revenue Funds include School Trust Interest/Income and donations. Donations are transferred from the school to the school foundation.

Federal Special Revenue Fund - to account for federal funds received by the school. School Federal Special Revenue Funds include U.S. Department of Education and U.S. Department of Agriculture grants.

Fiduciary Fund

Agency Fund - to account for resources held by the state in a custodial capacity. The school agency funds include student accounts.

2. General Fund Balance

The negative fund balance in the General Fund does not indicate overspent appropriation authority. Each agency has authority to pay obligations from the statewide General Fund within its appropriation limits. Each agency expends cash or other assets from the statewide fund when it pays General Fund obligations. The school's outstanding liabilities exceed the assets the agency has placed in the fund, resulting in negative ending General Fund balances for each of the two fiscal years ended June 30, 2003 and June 30, 2004.

3. Direct Entries to Fund Balance

Direct entries to fund balance in the State Special Revenue and Federal Special Revenue Funds include entries generated by the accounting system to reflect the flow of resources within individual funds shared by separate agencies.

4. Foundation

A foundation was created by the Montana Board of Public Education and incorporated under section 20-8-111, MCA. The responsibility of the foundation is to receive, hold, manage, use, and dispose of real and personal property given to the school, the board, or state of Montana on behalf of the school, by purchase, gift, devise, bequest, or as otherwise acquired. The proceeds, interest, and income thereof are to be used for the benefit of the school. The foundation activity is not reflected on the accompanying financial schedules. The foundation's reported audited financial expenditures of \$253,056 and \$205,993 in support of the school during fiscal years 2002-03 and 2003-04, respectively.

School Response

SCHOOL FOR THE DEAF AND THE BLIND



STATE OF MONTANA

3911 CENTRAL AVENUE
GREAT FALLS, MT 59405-1697

Administration: (406) 771-6000
Education: (406) 771-6030
FAX: (406) 771-6164
TDD: (406) 771-6063

September 22, 2004

Scott A. Seacat
Legislative Audit Division
PO Box 201705
Helena, MT 59620-1705

RECEIVED

SEP 22 2004

LEGISLATIVE AUDIT DIV.

Dear Mr. Seacat:

Presented below is the schools' response to recommendations contained in your financial compliance audit for the two fiscal years ended June 30, 2004.

Recommendation #1: We recommend the school implement additional controls to help prevent accounting errors and to improve overall financial records.

Response: Concur. The school is screening all accounting entries on SABHRS to ensure accuracy.

Recommendation #2: We recommend the school charge expenditures to the appropriate programs.

Response: Concur. This recommendation primarily concerns the expenditure of out-of-state tuition through a statutory appropriation. All expenditures from this revenue source were recorded to a cost center set up under the Education Program. The school will establish a cost center in the other three programs to record expenditures from out-of-state tuition that relate to these programs.

Recommendation #3: We recommend the school develop written procedures to ensure funds other than the General Fund are being charged appropriately and timely in compliance with state law.

Response: Concur. This recommendation primarily concerns the expenditure of out-of-state tuition. The school will explore having legislation introduced to exempt the statutory appropriation for out-of-state tuition from the requirements of 17-2-108, MCA. The school has carefully managed this revenue source to fund expenditures primarily for repair and maintenance of buildings and equipment that exceeded the schools' budget as

contained in House Bill 2. Through careful stewardship of this revenue source, the school was able to fund these expenditures, avoiding having to come in and request a general fund supplemental.

The school has tightened up procedures for requesting federal grant revenue throughout the year to meet current needs. The majority of federal revenue is expended in a timely manner. The school will develop written procedures to provide guidance to staff.

We would like to express our appreciation to Laurie Barrett and Melissa Heinert for the professional manner in which they conducted the audit. Laurie and Melissa were very accommodating and patient working around busy staff schedules and vacations to complete their work. Please call Bill Sykes at (406)771-6002, if you have any questions.

Sincerely,


Steve Gettel, Superintendent

